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STATE FOR WHA/BSC, WHA/EPSC, EB/IFD/OMA

STATE PASS TO USTR FOR MARY SULLIVAN
USAID FOR AA/LAC ADOLFO FRANCO
TREASURY FOR OSIA CHRIS KUSHLIS and OTA
COMMERCE ITA FOR SARAH COOK
NSC FOR SUE CRONIN
SOUTHCOM FOR POLAD

SIPDIS

C O R R E C T E D C O P Y (To correct several grammar errors)

E.O. 12958: N/A DECL: 1.6X6
TAGS: ECON PREL PA
SUBJECT: PARAGUAY: GOP BRISTLES AT CHARGEQS SUPPORT OF CENTRAL
BANK PRESIDENT REFORM EFFORTS

REF: A. ASUNCION 1486
 1B. ASUNCION 951

Classified by CDA Kevin M. Johnson for reasons 1.5 (b) and (d).

Summary

11. (U) After a private meeting between Central Bank President Monica Perez and Charge on January 1, Charge paid an official visit to Perez' office to publicly voice support for Perez' efforts to curb corruption in the Central Bank. Charge's remarks were widely covered in the local press, and met with immediate reaction from close advisors to President Duarte Frutos and Minister of Industry and Commerce Raul Vera, a past President of the Bank. President Duarte Frutos (NDF) also alluded to the comments on a local radio program on January 9. Later that day, Vice Foreign Minister called Charge to voice GOP displeasure over his public remarks during this highly political moment. Post public support for transparency at this difficult time was intended to aid reform efforts. While complaining about ChargeOs public comments, NDF also increased support for Perez' reforms, at least for now. Perez called U.S. public support "decisive". End Summary.

Charge Comes To Call

12. (SBU) On January 1, Charge met privately with Central Bank President (BCP) Monica Perez, who told him that advisors of President Duarte Frutos (NDF) were pressuring her not to take action against members of the BCP board that she alleges participated in corrupt activities through manipulation of the BCP's monetary budget. She said that a report by the government Controller's office supporting her position had "dark forces" worried that she was serious about fighting corruption. After their private meeting, Charge paid an official visit on Perez at her BCP office on January 3 to voice Embassy support for Perez. (Note: The French Ambassador had supported Perez publicly and criticized her opponents on the BCP board two weeks earlier. End Note.) CDA spoke to reporters after the BCP meeting, delivering general

comments emphasizing U.S. support for transparency and strengthened institutions, themes to which he noted NDF also commits himself. Note: CDA was careful to use NDF's own words and to praise his efforts, including his naming of Perez to this key post. End Note. CDA intentionally refrained from discussing the details of this ongoing domestic political drama, in which Perez is pitted against the BCP Board of Directors (ref A). Resulting media coverage of CDA's visit was straightforward, and quoted his remarks faithfully. The symbolism and timing of the visit, however, prompted all three national dailies to play the story prominently on their front pages the morning of January 4. The resulting coverage clearly implied Embassy support for Perez versus those blocking reform (as Charge intended). See para 10 for transcript of Charge's remarks.

Tea With Walde And Goiburu

¶3. (SBU) On the afternoon of January 4, CDA was invited to the home of Minister Carlos Walde, Chief Economic Advisor to NDF. Also attending the meeting was Carlos Miguel Goiburu, NDF's Chief Legal Advisor. Accompanying CDA were A/DCM and Econoff. Walde spent a large part of the meeting discussing the technical aspects of Perez' objections to reform of the BCP budget, specifically her concerns about the use of the monetary budget to avoid transparency in BCP operations (ref A). He expressed concern over the possible loss of BCP "independence" should all aspects of the budget be subject to Congressional approval. CDA stated that he did not wish to be drawn into a discussion of the technical details of BCP budgets, but that his larger concern was the fight against corruption. Walde said that CDA's public comments were not helpful, and CDA asked both Walde and Goiburu to state specifically which comments were deemed inappropriate, reminding them that his comments echoed earlier remarks by NDF. Neither Walde nor Goiburu could point out specific remarks they found objectionable, and Goiburu, having heard Charge on the radio, said the remarks were "not a problem."

¶4. (SBU) Walde complained about Perez' style and stubbornness, noted that CDA's comments complicated things for NDF, but agreed that the BCP Board, which is fighting Perez, is corrupt. Note: An added difficulty for NDF is that in comments in December, he also called the Banks' Directors corrupt, shameless, and called for their resignations. End Note. Walde told CDA that he agreed with Perez about corruption at the Bank and that the BCP directors needed to be removed, but stated that she was being too aggressive in her approach. "My tactic would be to remove some of the directors, just enough so that I had control of the board", he said. Walde noted the political sensitivity in combating corruption; being overly aggressive could provoke a backlash harmful to larger efforts being undertaken by NDF's government. CDA encouraged both Walde and Goiburu to look carefully at his statements, as he did not believe that any of his remarks were inflammatory. At the close of the meeting both Walde and CDA expressed a hope for a positive resolution to the BCP controversy.

Minister Vera States His Case

¶5. (SBU) On the heels of CDA's visit with Walde and Goiburu, CDA received a request from Minister of Industry and Commerce and former Central Bank President Raul Vera for a private meeting. The two met on the afternoon of January 5 at CDA's residence. Econoff also attended the meeting. Vera thanked CDA for the opportunity to speak privately. He expressed concern over a recently prepared report by the GOP Controller's office, which he said noted irregularities at the BCP during his tenure as BCP President. He stated that the report was incomplete, and launched into a lengthy explanation of his perspective, frequently drawing CDA's attention to the documentation he prepared for the meeting. CDA restated that the technical aspects of BCP budgeting were a matter for the GOP to sort out, and that an interagency solution was probably the most viable. Vera expressed dismay at the Controller's report, alleging that it was not comprehensive. He also implied that Perez' desire to see him implicated in corruption stemmed from a personal grievance that dated back to his tenure as BCP President, when Perez was also a BCP official. He lamented the impact of accusations on his career and on his family. At the end of the meeting, CDA reiterated his support for transparency and accountability. Vera thanked CDA, and said that he would also be

making his case to the French and Italian Ambassadors.

NDF Gets The Message...?

¶6. (C) On January 5, NDF met Perez, Finance Minister Bergen and Presidential advisors Walde and Goiburu at his residence. Perez told CDA that the meeting was tense and NDF changed his position starkly. Meeting separately with Walde and Goiburu and then with her, Perez said NDF claimed to have been "misinformed" by Walde and others. Then meeting all four together, NDF told them the ControllerQs report on BCP activities had to be respected, and told Perez and Finance Minister Bergen (in the presence of the opponents to this approach) to consult on implementing the reportQs recommendations. NDF then told Perez to tell the press of his decision, asking her how she would put it. She told him she would say that she was supporting NDF's transparency and anti-corruption efforts. According to Perez, NDF asked what Perez would say if the press asked about ChargeQs comments. She said she would note support for "Duarte's transparency agenda." NDF told her "great," and that is indeed what she told the press. Perez told Charge that US support had been "decisive" in moving NDF on this issue.

...And Criticizes the Messenger

¶7. (SBU) On the morning of January 6, NDF spoke to an Asuncion radio station (Radio Mil) in which he criticized "meddling" by foreign embassies in reference to their expressions of support for Monica Perez. "I don't believe this is an expression that is appropriate for an ambassador," Duarte Frutos said, without making direct reference to any specific diplomatic mission. NDF also stated, "Even if his position is correct, a diplomat should not get involved in the government's administrative matters and I've asked the MFA to remind all Embassies of this." The president reportedly went into no further

detail. BCP President Perez told CDA that NDF called her shortly after speaking to the press. He asked her if "her friends" (USG) were pleased with his decision at the January 5 meeting, and she told him we were fine. He told her that he had been asked on the radio about Embassy comments, and had criticized them for "political reasons." She said he made light of the criticisms. Later on January 6, Acting FM Gimenez called CDA to communicate GOP concerns over his public remarks, adding that this was a sensitive electoral moment. Charge asked Gimenez which comments the GOP considered out-of-line, but Gimenez only repeated that it was a sensitive time and that he would also call other embassies. Note: A formal note arrived on January 9 requesting all diplomatic missions adhere to the Vienna conventions when registering concerns over host government policies. End Note.

¶8. (U) NDFQs radio comments received front-page play in all three national dailies the morning of January 7, with two of the three papers assuming that Duarte's comments were directed at the U.S. Embassy. "The executive (branch) criticizes American diplomat", circulation leader ABC's headline read. "Executive criticizes meddling by the American embassy," said La Nacion. "Someone has to go" reads a presidential quote in large type immediately below photos of CDA Kevin Johnson and French Ambassador Denis Vene, although the quotation was misleadingly played completely out of context by "Ultima Hora." NDF was actually referring Central Bank Directors.

¶9. (U) January 7 papers also briefly noted that the Foreign Ministry sent notes to all diplomatic missions. ABC Color said the note was "to remind them that any disquieting commentary should be sent through the Ministry of Foreign Relations, as is stipulated in Article 41 of the Vienna Convention." After this Saturday morning coverage however, there has been no further press play on the matter.

Charge's January 3 Remarks At The Central Bank

¶10. (U) Quote: We believe it was a very intelligent decision by President Duarte to name a prominent professional such as Dr. Perez for as important an institution as the Central Bank. So when the President made that decision, we thought that was very good news, indeed. We

think it is important to support the person, in this case at the Central Bank, who is combating corruption. Part of the transformation of Paraguay will result from the strengthening of its institutions, an important factor for any modern country, and for Paraguay to be a prosperous country. The United States is always interested in having prosperous friends. End Quote. Both major newspapers concluded coverage by reporting CDA's comments on the Millennium Challenge Account program specifically benefiting those countries with an articulated will and strategy to combat corruption and strengthen institutions.

Comment: Defending The Reform Agenda

¶11. (C) The current situation at the Central Bank remains highly politicized, and its outcome remains uncertain. This is a difficult moment for NDF, who is embroiled in a nasty campaign for the Colorado Party presidency and is under pressure to refrain from any action that might impact his political allies. Post feels that it is important to provide counter-pressure in support of Perez' and other efforts to stem corruption. The keen interest shown by Walde, Goiburu, Vera, and NDF illustrates the seriousness with which this matter is viewed by GOP principals. Given the stakes, there is bound to be further pressure exerted against Perez and her small team of trusted advisors. In addition to the type of public support given by CDA U.S. Treasury's Office of Technical Assistance (OTA) will soon assign a resident advisor to the BCP. In addition, OTA has agreed to provide an intermittent legal advisor at Perez' request to help her team review Paraguay's Monetary Budget Law.

¶12. (C) Comment Continued: Post is keenly aware of the need to pick our spots in helping NDF remember his promises to promote reform. Post weighed in at a key moment when NDF was wavering and we've had at least short-term success. Duarte's measured complaint about our public comments bolsters his macho image, but is unlikely to have any lasting effect. The Cabral case and now this more minor ruffle can be useful

reminders to Duarte that he can't take our support for granted.
JOHNSON